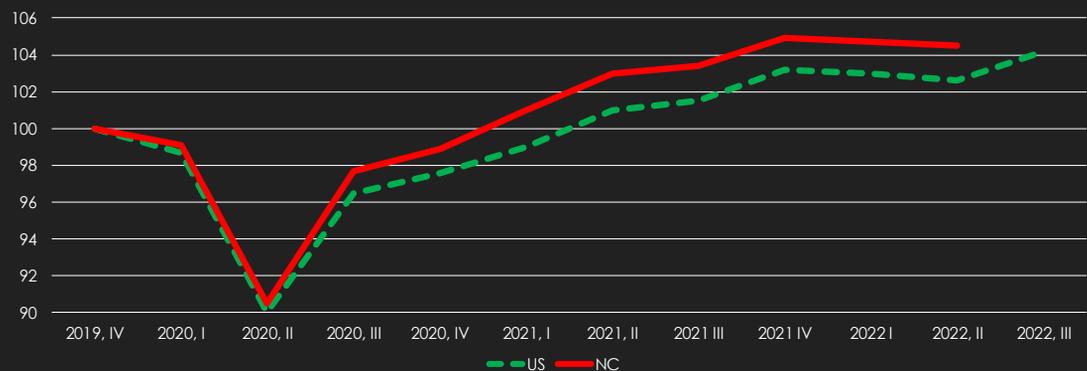


PANDEMIC, RECESSION, RECOVERY, INFLATION, ANOTHER RECESSION: WHEN WILL NORMALCY RETURN?

Dr. Michael L. Walden, Reynolds Distinguished Professor Emeritus
North Carolina State University

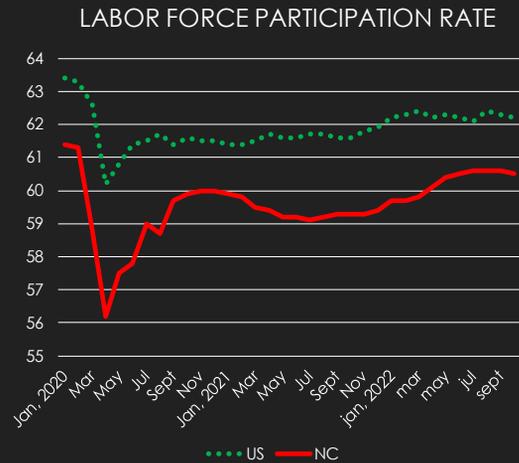
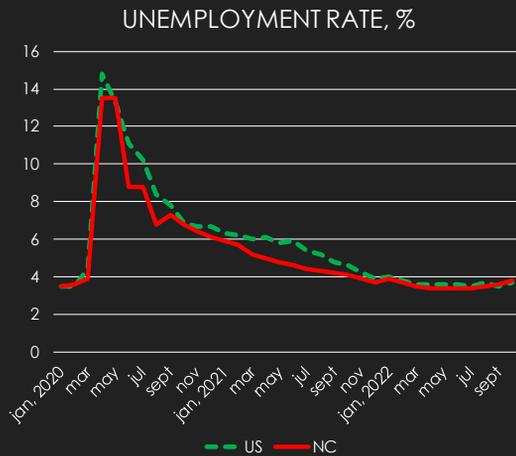
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THE ECONOMIC RECOVERY FROM THE PANDEMIC STALLS (QUARTERLY GDP AS PERCENT OF 2019 IV GDP)



2

TWO PICTURES OF THE LABOR MARKET



3

THE "SURPRISE" SHORTAGE OF LABOR

REASONS WHY FEWER PEOPLE HAVE BEEN LOOKING FOR WORK:

- CONTINUED WORRY OVER COVID
- UNCERTAINTY ABOUT SCHOOL SCHEDULES
- REDUCED AVAILABILITY OF CHILD CARE
- CASH FROM STIMULUS CHECKS, CHILD PAYMENTS, ADDITIONAL JOBLESS BENEFITS, EXPANDED FOOD STAMPS, EXPANDED "OBAMACARE"
- MORE RETIREMENTS

4

POLLING QUESTION #1

A recession occurs when:

- a. there is a two consecutive quarterly decline in GDP
- b. there is a two consecutive monthly increase in unemployment
- c. when economists at the National Bureau of Economic Research say so
- d. when economists at the Congressional Budget Office say so

5

ALSO, A RE-ALLOCATION OF WORKERS IS OCCURRING

MANY WORKERS USED THE TIME AND FINANCIAL SUPPORT DURING THE PANDEMIC TO IMPROVE THEIR SKILLS



6

BUSINESS RESPONSES TO LABOR SUPPLY ISSUES

1. ATTRACT LABOR WITH HIGHER PAY AND/OR BENEFITS
2. SUBSTITUTE TECHNOLOGY AND AUTOMATION FOR WORKERS
3. IMPROVE WORKER PRODUCTIVITY

7

POLLING QUESTION #2

The "labor force participation rate" is measured by:

- a. the percentage of population 16 years and over and not institutionalized who are working or looking for work
- b. the percentage of non-retirees working or looking for work
- c. people working as a percentage of all adults
- d. people working as a percentage of all people over age 21

8

UNPRECEDENTED FEDERAL ASSISTANCE

\$5.5 TRILLION
25% of GDP
\$80 BILLION to NC



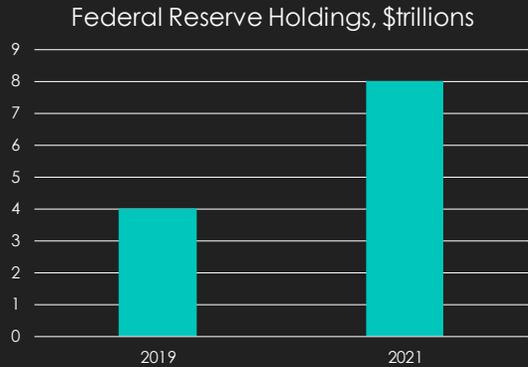
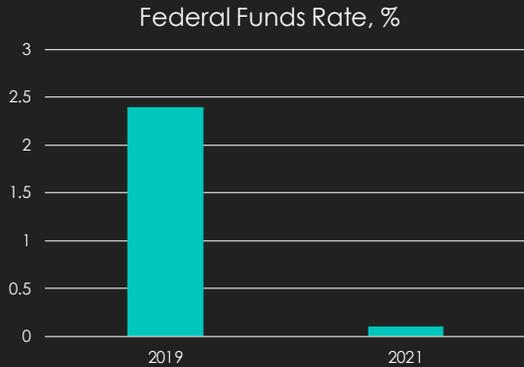
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WAS TOO MUCH FINANCIAL AID PROVIDED?

FIRST PANDEMIC OF THIS SIZE IN A CENTURY – UNKNOWN, UNCERTAINTIES
ERR ON THE SIZE OF TOO MUCH HELP
FUNDS USED TO MAINTAIN HOUSEHOLDS, BUSINESSES, INSTITUTIONS
WANTED ECONOMY TO SURVIVE

10

FEDERAL RESERVE ALSO STEPPED UP – FINANCED GOVERNMENT BORROWING, KEPT INTEREST RATES LOW



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THE "FED" SUPPORTS ITS EFFORTS BY CREATING \$

MONEY SUPPLY UP 35% SINCE BEGINNING OF PANDEMIC

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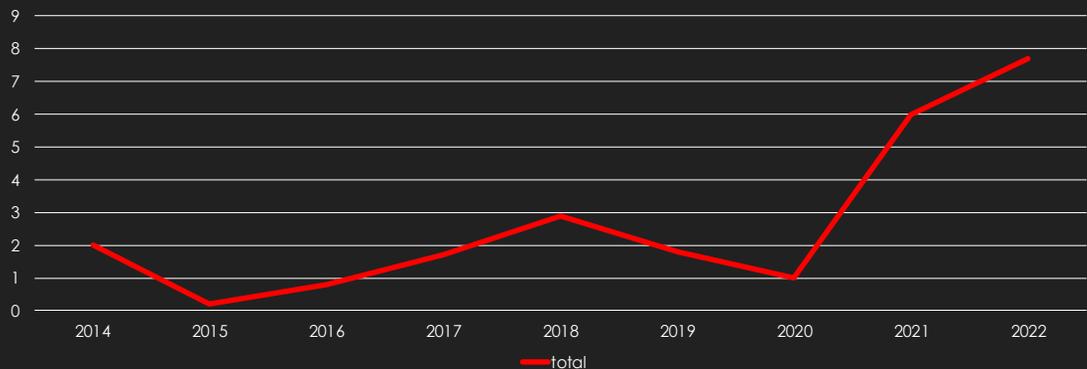
POLLING QUESTION #3

The two unique powers of the Federal Reserve are:

- a. appointing bank directors and auditing bank books
- b. evaluating the federal budget and calculating the deficit
- c. owning gold mining companies and owning silver mining companies
- d. printing money and impacting interest rates

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THE TAKE-OFF OF INFLATION (% change)



14

TWO FACTORS BEHIND HIGHER INFLATION

DEMAND PULL: ECONOMY IS FLUSH WITH CASH AND "PENT-UP" DEMAND
 HIGHER INFLATION RATE (4% to 5%) THROUGH 2022.
 HIGHER INFLATION IS THE "PRICE" OF THE ENORMOUS FEDERAL HELP.

SUPPLY PUSH: FASTER INFLATION IS RELATED TO DISRUPTIONS IN THE PRODUCTION OF
 PRODUCTS AND SERVICES AS THE ECONOMY RECOVERS FROM THE PANDEMIC.
 THE DISRUPTIONS ARE TEMPORARY.

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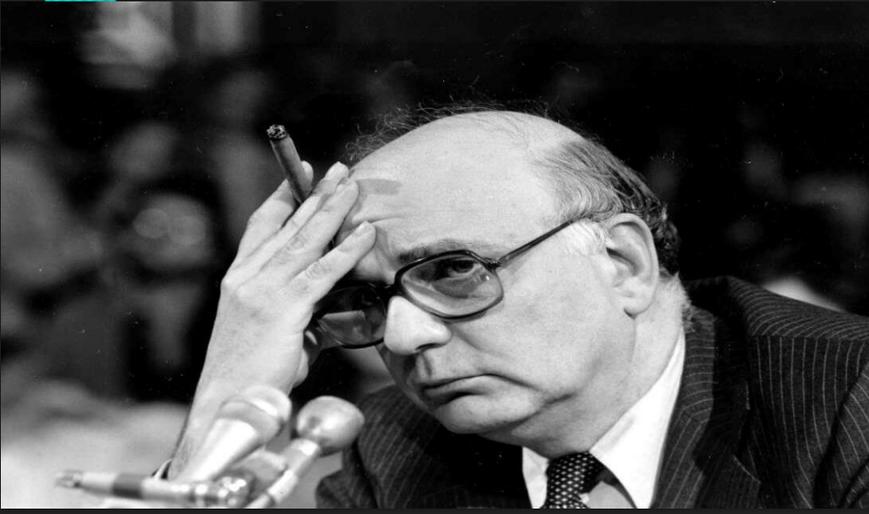
CHALLENGE FOR THE FEDERAL RESERVE

REDUCING STIMULUS –
 MEANING INCREASING
 INTEREST RATES AND
 DECREASING MONEY
 GROWTH –WITHOUT
 CAUSING A RECESSION



16

WE FACED THE SAME SITUATION IN THE LATE 1970s
THE FED UNDER PAUL VOLCKER TOOK HARSH ACTION



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POLLING QUESTION #4

To reduce the inflation rate, the Federal Reserve will:

- a. raise its key interest rate and reduce the money supply
- b. lower its key interest rate and reduce the money supply
- c. raise its key interest rate and increase the money supply
- d. lower its key interest rate and increase the money supply

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HOW HIGH COULD INTEREST RATES GO?

SOME ECONOMISTS SAY FED'S KEY INTEREST RATE MUST BE PUSHED
HIGHER THAN THE INFLATION RATE

FED'S INTEREST RATE IS CURRENTLY AT 4% - IT WILL GO HIGHER

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PROBLEM WITH THE INFLATION/RECESSION SCENARIO

INFLATION-ADJUSTED EARNINGS CAN FALL – DOWN 5% THIS YEAR

WHEN COMBINED WITH A RECESSION, CAN TAKE YEARS FOR
STANDARD OF LIVING TO RECOVER

WHAT MIGHT HELP THIS TIME IS THE ON-GOING LABOR SHORTAGE

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INDEED, COULD WE HAVE A RECESSION WITHOUT JOB LOSSES?

COMPANIES CUT LABOR COSTS BY TAKING OFF
JOB OPENINGS

WORRIED ABOUT LOSING WORKERS PERMANENTLY

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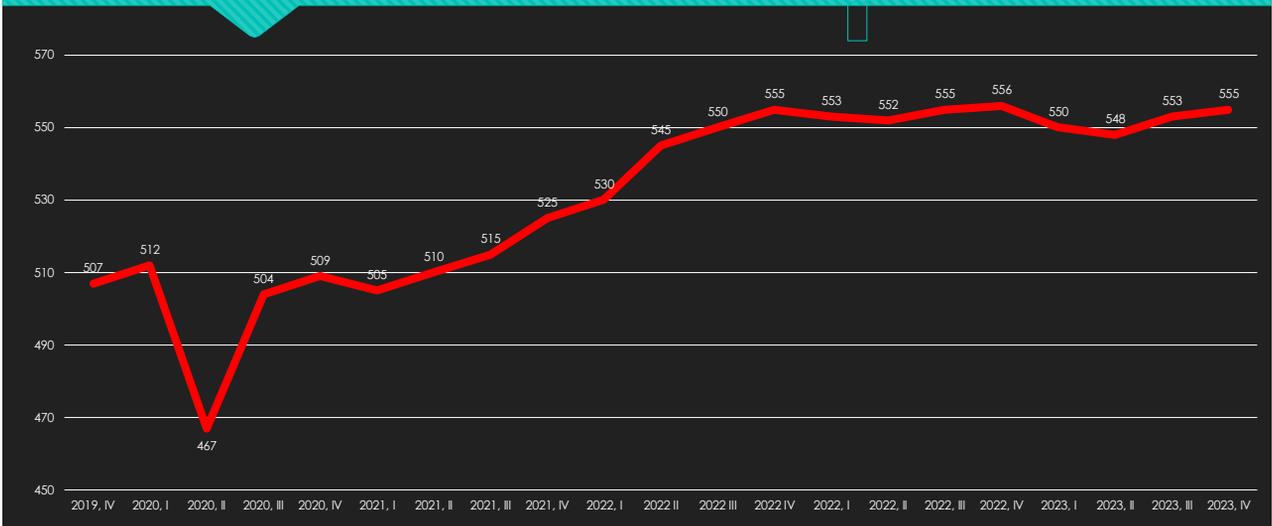
POLLING QUESTION #5

Recessions usually don't happen without:

- a. lower unemployment
- b. higher unemployment
- c. higher company production
- d. lower federal budget deficits

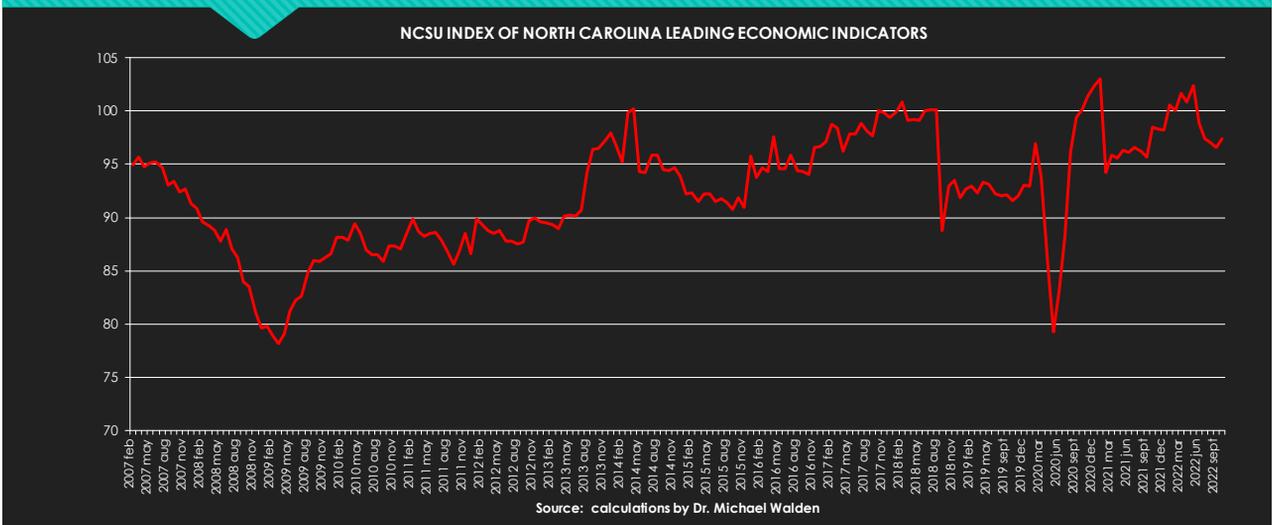
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FORECASTED PATH OF NORTH CAROLINA'S REAL GDP



23

NORTH CAROLINA IS SLOWING



24

WILL FAST-GROWING REGIONS LIKE THE TRIANGLE EXPERIENCE THE RECESSION?

JOB LOSSES DURING THE LAST THREE RECESSIONS

	US	NC	RALEIGH-CARY
Tech recession (2001)	-1.7%	-3.7%	-2.2%
Subprime recession (2008-2009)	-5.4%	-6.2%	-4.2%
Covid recession (2020)	-14.4%	-10.5%	-11/0%

25

NC CONTINUES TO REMAKE ITS ECONOMY

A "NEW ENERGY" CORRIDOR BETWEEN TRIANGLE AND TRIAD

VINFAST

WOLFSPEED

TOYOTA BATTERY FACTORY

26

WE ARE ALREADY MOVING TO THE POST-PANDEMIC ECONOMY



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ELEMENTS OF THE NEW ECONOMY

MORE REMOTE WORK
DRONE DELIVERY
TELE-MEDICINE
REMOTE SCHOOLING
UNIVERSAL HIGH SPEED INTERNET
BOOM IN RURAL AND SMALL TOWN LIVING

28

NOW AVAILABLE

*RELAUNCH: RENEWING FAMILIES AND
REVIVING THE AMERICAN DREAM IN
THE NEW INDEPENDENT LIFESTYLE*

MICHAEL L. WALDEN



**LAUNCHING
SOON!**

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